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THE CONTRIBUTION OF AXIS-CONTROLLED EUROPE TO THE EUROPEAN-AXIS WAR POTENTIAL

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This paper estimates the financial value of the use of manpower and other resources in Axis-controlled Europe for war purposes in 1942. Comparison is made with similar expenditures in Greater Germany, and the trend in the magnitude of the war effort in both areas in 1943 is estimated.

6 November 1943

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TABLE OF CONTENTS

		Page
I.	Summary	1
II.	The Contribution of Axis-Controlled Europe in 1942.	3
	A. The Absolute Amount	3
	B. Comparison with German War Expenditures	5
	C. Comparison with German Gross National Product	5
III.	The Trend to Mid-1943	7
	A. Trend in the Contribution of Axis-Controlled Europe	7
	B. Trend in German War Activity	8
IV.	Probable Future Trends	11
V.	Appendix. Table I.	13

THE CONTRIBUTION OF AXIS-CONTROLLED EUROPE TO THE EUROPEAN-AXIS WAR POTENTIAL

I. SUMMARY.

1. In 1942 the war expenditures of Germany in Axis-controlled Europe, financed by the levy of occupation costs and by the accumulation of clearing debts, aggregated some 17 to 18 billion RM. The direct war expenditures of Germany's ally and satellites totalled perhaps 13 billion RM. The sum of the two figures, 30 to 31 billion RM, was some 29 percent of the total German and non-German war expenditures. This should not be taken, however, to indicate a 29 percent contribution to the total of European-Axis physical striking power.

2. By the middle of 1943, the rate of war expenditure in German-allied and German-occupied areas had risen by 25 percent compared with 1942. The greater part of the increase was due to rising prices, but some share represents increased physical contribution to the Axis war effort. Coastal fortifications and other military works were being pushed forward rapidly. The exertion of Axis-controlled Europe had become a slightly larger proportion of the total European-Axis war effort.

3. The construction work referred to was probably going on at a peak level in mid-1943, and probably represents maximum effeciency in use of the resources of occupied areas.

On account of exhaustion of stocks and the drain of manpower to Germany, it seems likely that another sector of the non-German contribution to the Axis war effort, the flow of basic materials to Germany, probably cannot be prevented from declining. Military exertion by satellites will hardly rise.

4. It follows that the non-German contribution to European-Axis striking power has probably reached its peak, and, quite aside from bombing or United Nations invasion, is declining gradually. The effect of those two United Nations activities is of course to accelerate the decline.

II. THE CONTRIBUTION OF AXIS-CONTROLLED EUROPE IN 1942

A. The Absolute Amount.

Germany has secured contributions from occupied countries to her war potential by three devices. One is the assessment of occupation costs on occupied areas. By order of the occupied state, special deposit-accounts to the credit of the German government are created (and regularly replenished) in the central bank. The amount purportedly represents costs of occupation. The expenditure of these deposits permits Germany to secure resources from the occupied area without burden to herself. The sums levied are sufficient not only to cover occupation costs, but also to finance German imports of materials.1/

Germany also finances imports from occupied areas by the accumulation of adverse clearing balances. On paper these balances represent claims whose burden must be met by Germany in the future. For the present, however, the total real burden of producing these goods is imposed upon the occupied area.

A second formal liability, in this case to individual bond buyers, is created by the sale of German bonds in non-German areas. By the end of 1941, 3 billion RM worth of German "Schatzanweisungen" had been sold in Belgium ,

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Holland, and the Protectorate alone.

The considerable labor involved in estimating the total amount of such sales since 1941 has not been undertaken.

The proceeds of occupation-cost levies and bond sales may be used not only to finance the purchase of current services or current production, but also to finance the acquisition of control of business enterprises. These transfers of ownership are of course not a contribution to the war potential, and funds used for the purpose should be deducted from the total. As a crude first approximation, it is assumed here that the amount of funds so used equals in amount receipts from bond sales. The sum of occupation-cost levies is therefore taken as a measure of the net contribution to the European-Axis war potential of the occupied areas.

Another important sector of the non-German contribution is the direct war expenditures of Italy and of satellite states. In 1942 the accumulation of clearing debts totalled some 5.5 billion RM, expenditures financed from occupation-cost levies, 12 billion RM[1/], and direct war expenditures of Germany's allies, 13 billion RM.

1/ The figures and all others used in this paper are presented in Appendix Table I. The figures are derived from MEW estimates of the rate of each type of expenditure at the beginning and end of 1942. Details of the MEW estimates are not available. However, the MEW estimates for January 1942 agree with careful and detailed estimates for the year made for OSS by George E. Hildebrand Jr.

B. Comparison with German War Expenditures.

The sum of these three items, 30.5 billion RM, may be compared with the military and semi-military expenditures of the German government financed from internal sources. These totalled some 75 billion RM. The non-German contribution measured in financial terms, thus constituted slightly less than 30 percent of the total European Axis outlay for war.

This should not be interpreted as a suggestion that non-German Europe contributed almost 30 percent of the total Axis striking power. The magnitude of the percentage indicates, however, the very substantial contribution of non-German Europe to Axis war potential.

C. Comparison with German Gross National Product.

This non-German contribution may be compared with the gross national product of Greater Germany.[1/] The gross

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1/ Gross national product, rather than national income, is taken as an approximate measure of total economic potential for two reasons. (1) Calculation of the national income involves a deduction for depreciation upon capital equipment. Over a short period, however, depreciation need not be made good, and the deduction results in understatement of current output. (2) The national income calculation assumes that government expenditure financed out of business taxes goes to furnish services to business, and does not result in any output separate from that of the private enterprises. In wartime, however, business taxes are obviously used to finance war expenditures, and government expenditure financed by them must be added to the total market value of private output, to get an approximate measure of total current output, with which to compare the size of any component parts.

"Gross national product" and "national income" concepts used here are American. Corresponding British concepts differ in content.

national product in 1942, not including the net foreign contribution, was 136 billion RM. The non-German contribution to German war potential was thus in financial terms between one-fifth and one-fourth as great as the total national product of Greater Germany.

III. THE TREND TO MID-1943

A. Trend in the Contribution of Axis-Controlled Europe.

By mid-1943, clearing-debt accumulation, occupation-cost levies, and direct military expenditures of German-allied and occupied governments had increased as follows:

	1942	Annual rate June 1943
Clearing balance accumulation	5.5	8
Occupation cost levies	12	16
German allies military expenditures	13-14	16
TOTALS	30.5-31.5	40

It is possible that all of the increase in direct military expenditures of German-allied governments, and most of the increase in the other two items, were due to the price rises which admittedly were taking place throughout non-German Europe. It is improbable, however, that all of the increase in expenditure in occupied countries is accounted for by increases in the cost of the goods and services purchased.

At mid-1943 the construction of coastal fortifications and other defense works along the western and southern edges of Europe was proceeding rapidly. It should have been possible to mobilize large amounts of local labor as well as of local materials for this work. An increase of between 5 and 12 percent in German expenditures in occupied areas may be accounted for by this construction activity.

B. Trend in German War Activity.

The increase in war activity in non-German areas did not represent a net shift of labor and resources from Germany. During the same period war activity in Germany increased -- but both the net output of war goods and the striking power of the armed forces probably declined nevertheless. Between January and June 1943 the size of the armed forces increased by perhaps 250,000 men, and that of the civilian labor force probably by more.1/ The former increase came from the "comb-out" and from the calling-up of new age groups. Any inductions from war industries were more than compensated for by the importation of foreign workers. Perhaps one million foreign workers were brought into Germany during the first six months of 1943.

It may be worth noting that these increases do not represent an enlargement of the net current war effort. Though the armed forces increased in size, the number of men of combat age decreased. The smaller army of January was a more powerful combat instrument than the larger one of June. The increase in civilian labor force was accompanied by its dilution by foreign workers, whose efficiency is below that of the workers they replaced. More important, bomb damage during the first half of 1943 directly reduced total industrial output by an amount equal to perhaps 1.5 to 2

1/ Between July 1942 and July 1943 the labor force increased by .5 million. The increase probably occurred primarily in 1943.

percent of the year's output, and some small fraction of the current rate of output was devoted to the restoration of bomb damage. Later raids, of course, increased the percentage of annual output lost by direct damage.

German war expenditure financed from domestic income increased bywell over one-fourth from 1942 to mid-1943 -- from 73 billion RM in the former year to an annual rate of 93 billion RM in June 1943. The great increase does not, however, reflect an appreciably augmented flow of current services. Some small share of it is accounted for by the increase in the size of the armed forces, and perhaps an additional very minor amount by an increase in the public payroll. The full-time organization which deals with air raids and air-raid damage may have expanded by 100,000 men during this period. By far the major part of the increase in expenditures, however, went for items which do not represent any current use of resources whatever. In spite of official prohibitions and disclaimers, prices paid by the government may have risen slightly. Payments to dependents of soldiers probably increased during the half year. The closing of shops and redistribution of stocks in connection with the "comb-out" in the spring doubtless entailed expense to the government. Evacuation allowances were being paid out at mid-year in amounts equivalent to an annual rate of between 500 million and 1 billion RM. Compensation for bomb damage, industrial and other, certainly totalled very

large sums by mid-1943. These expenditures, rather than increased use of resources in the war effort, explain the increase in German governmental expenditures.

In summary, the total volume of war activity in Germany increased only slightly during the first half of 1943. The net war-output declined. The volume of non-German war activity, which increased absolutely, also increased relative to war activity in Germany.

IV. PROBABLE FUTURE TRENDS

It seems highly probable that non-German war exertion not only will not continue its upward trend, but cannot maintain the mid-1943 rate. The economic position of occupied areas is steadily weakening. The European areas from which German war imports have come are areas all of which before the war had import surpluses. Their conversion to production of more current output than they consume could have been accomplished in three ways, (1) by expansion of total output, (2) by restrictions on consumption, and (3) by the appropriation of capital -- that is, by the seizure of stocks of raw materials, finished products, livestock, etc. The last was prominent among the methods used. While consumption was restricted, the disorganizations of production resulting from occupation as such, from the appropriation of capital, and from the exportation of laborers to Germany, were such that output declined greatly. By mid-1943, 5,000,000 foreign workers were employed in Germany.[1/] It is reasonably certain that the capital equipment of occupied areas, especially in agriculture, is continuing to decline, and that output available to Germany must decline with it.

1/ This is in addition to prisoners of war. The figure 5,000,000 is cited, not to indicate the contribution of foreign workers within Germany, but to indicate the drain upon the labor supply of Axis-controlled countries.

It should be noted too that the peak of war exertion in occupied areas at mid-1943 is associated with the intense activity in construction of coastal fortifications and other defense works. These are activities which are especially adapted to using local labor because they can utilize much unskilled labor, and because they do not require the uprooting of workers from their homeland. This type of employment is a special case; the labor of occupied areas employed on these projects could probably not be put to work for Germany so effectively on any other task. Their activity will decline whenever the program of fortification lessens in intensity.

Because Germany pressed as much help as possible from her satellites for the Russian campaigns, the contribution of remaining satellites will hardly increase significantly in the future. It may well decline.

On balance, the rate of contribution to the European axis war economy represented by activity in non-German Europe will almost certainly decline in the last half of 1943 even aside from the defection of Italy. The added effect of bomb damage and of United Nations occupation of non-German territory will accelerate the decline. No rapid deterioration is to be expected, however; none of these forces is spectacular in its effects.

V. APPENDIX

Table 1. Estimates of German[a] Gross National Product and War Expenditures, and of War Expenditures in Axis-Controlled Europe.
(In Billions of RM)

		Mid-1939 (Annual Rate) (1)	1942 (2)	June 1943 (Annual Rate) (3)
A	Private consumption net of indirect taxes	51	37	35
B	Order of magnitude of indirect taxes	10	9	9
C	Private investment	12	-1	0
D	Total government expenditure financed from domestic income	43	91	109
E	DOMESTIC GERMAN GROSS NATIONAL PRODUCT[b]	106	136	146
F	German war expenditure financed from domestic income	29	75	93
G	Accumulation of adverse clearing balance	0.5	5.5	8
H	Expenditure from occupation cost levies	0	12	16
I	Direct war expenditure of Germany's allies	c/	13	16
J	NON-GERMAN[a] WAR CONTRIBUTION	...	30.5	40
K	TOTAL AXIS EUROPE WAR EXPENDITURES	...	105.5	133
L	Ratio of J to F		41%	43%
M	Ratio of J to K		29%	30%
N	Ratio of J to E		22%	27%

a/ Includes Old Reich, Austria, and Sudetenland

b/ Approximately as defined by United States Department of Commerce. Equal to national income plus depreciation plus business taxes. Includes soldiers' allowances, employers' social security contributions, and interest on the public debt.

(Footnotes continued on next page.)

Table 1. Sources of Estimates

Estimates presented in Table 1 are based largely upon two papers by MEW, "Estimate of German National Income and Its Utilization 1939/42" dated February 1942, and "Financial Developments in German Europe, Monthly Report No. 6 - June 1943." The former presents estimates of the magnitude of components of German gross national product including the non-German contribution, for mid-1939, autumn 1940, and January 1942. The latter gives estimates of German war expenditure and the non-German contribution for December 1942 and June 1943. The former will be referred to as MEW "Estimate" and the latter as MEW "Developments."

A-1 MEW, "Estimate"

-2,3 OSS estimate, based upon MEW "Estimate" figure of 37 billion RM for January 1942.

B OSS estimate based upon published German data showing revenues of 4.9 billion RM from turnover taxes, customs, and consumption taxes during April-September 1941. No attempt at a precise estimate was made, since a precise estimate is not needed for the present purpose.

C-1 MEW, "Estimate"

-2,3 OSS estimates, believed to be maximum estimates, based upon MEW, "Estimate," which indicates composition of investment in January 1942 in billions of RM as: New investment, 1.0; maintenance, 2.0; change in stocks, -3.0. OSS estimates based upon estimated decline in rate of decrease in stocks.

D-1 MEW, "Estimate"

-2 Average of estimates for January 1942 and December 1942 from the two MEW papers.

-3 MEW, "Developments"

E Sum of A through D.

F-1,2,3 See D-1,2,and 3 respectively.

(Footnotes to Table 1 continued)

c/ Not estimated.

d/ Axis-controlled Europe minus old Reich, Austria, Sudetenland.

G-1,2,3 See L-1,2,3 respectively. A careful detailed estimate for 1941, prepared for OSS by George H. Hildebrand, Jr. is 4.2 billion RM. See Hildebrand, The Net Economic Contribution of Europe to the German War Economy, 1939-42.

H-2,3 See D-2,3 respectively. Hildebrand's estimate for 1941 is 11.4 billion RM.

I-2,3 MEW, "Developments," gives the figure for mid-1943. That for 1942 is estimated on the basis of an MEW figure of 14 billion RM for December 1942.

J Sum of G, H, and I.

K Sum of F and K.

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TABLE OF CONTENTS

		Page
I.	Summary	1
II.	The Contribution of Axis-Controlled Europe in 1942.	3
	A. The Absolute Amount	3
	B. Comparison with German War Expenditures	5
	C. Comparison with German Gross National Product	5
III.	The Trend to Mid-1943	7
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V. APPENDIX

Table 1. Estimates of German[a] Gross National Product and War Expenditures, and of War Expenditures in Axis-Controlled Europe.
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H	Expenditure from occupation cost levies	0	12	16
I	Direct war expenditure of Germany's allies	c/	13	16
J	NON-GERMAN[d] WAR CONTRIBUTION	...	30.5	40
K	TOTAL AXIS EUROPE WAR EXPENDITURES	...	105.5	133
L	Ratio of J to F		41%	43%
M	Ratio of J to K		29%	30%
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a/ Includes Old Reich, Austria, and Sudetenland

b/ Approximately as defined by United States Department of Commerce. Equal to national income plus depreciation plus business taxes. Includes soldiers' allowances, employers' social security contributions, and interest on the public debt.

(Footnotes continued on next page.)

Table 1. Sources of Estimates

Estimates presented in Table 1 are based largely upon two papers by MEW, "Estimate of German National Income and Its Utilization 1939/42" dated February 1942, and "Financial Developments in German Europe, Monthly Report No. 6 - June 1943." The former presents estimates of the magnitude of components of German gross national product including the non-German contribution, for mid-1939, autumn 1940, and January 1942. The latter gives estimates of German war expenditure and the non-German contribution for December 1942 and June 1943. The former will be referred to as MEW "Estimate" and the latter as MEW "Developments."

A-1	MEW, "Estimate"
-2,3	OSS estimate, based upon MEW "Estimate" figure of 37 billion RM for January 1942.
B	OSS estimate based upon published German data showing revenues of 4.9 billion RM from turnover taxes, customs, and consumption taxes during April-September 1941. No attempt at a precise estimate was made, since a precise estimate is not needed for the present purpose.
C-1	MEW, "Estimate"
-2,3	OSS estimates, believed to be maximum estimates, based upon MEW, "Estimate," which indicates composition of investment in January 1942 in billions of RM as: New investment, 1.0; maintenance, 2.0; change in stocks, -5.0. OSS estimates based upon estimated decline in rate of decrease in stocks.
D-1	MEW, "Estimate"
-2	Average of estimates for January 1942 and December 1942 from the two MEW papers.
-3	MEW, "Developments"
E	Sum of A through D.
F-1,2,3	See D-1,2,and 3 respectively.

(Footnotes to Table 1 continued)

c/ Not estimated.

d/ Axis-controlled Europe minus Old Reich, Austria, Sudetenland.

G-1,2,3	See L-1,2,3 respectively. A careful detailed estimate for 1941, prepared for OSS by George H. Hildebrand, Jr. is 4.2 billion RM. See Hildebrand, The Net Economic Contribution of Europe to the German War Economy, 1939-42.
H-2,3	See D-2,3 respectively. Hildebrand's estimate for 1941 is 11.4 billion RM.
I-2,3	MEW, "Developments," gives the figure for mid-1943. That for 1942 is estimated on the basis of an MEW figure of 14 billion RM for December 1942.
J	Sum of G, H, and I.
K	Sum of F and K.

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